

Message Text

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PAGE 01 MADRID 05301 180651Z

16

ACTION EUR-25

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FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

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TAGS: ECON, SP

SUBJECT: GOS APPROVES ANTI-INFLATIONARY MEASURES: PARTIAL
PRICE FREEZE ANNOUNCED.

1. THE GOS COUNCIL OF MINISTERS APPROVED THE ADOPTION
OF A PACKAGE OF ANTI-INFLATIONARY MEASURES AT A MEETING
PRESIDED OVER BY GENERALISIMO FRANCO ON SEPT 14.
AN OFFICIAL STATEMENT BY THE GOVERNMENT FOLLOWING THE
MEETING INDICATED THAT WHILE IT WAS FIRMLY IN FAVOR OF
MAINTAINING THE EXPANSION OF THE SPANISH ECONOMY (A GNP
GROWTH RATE OVER 8 PERCENT FOR 1973 WAS PREDICTED) IT WAS
ACTING TO AVOID THE "SOCIAL DAMAGES" THAT THE INFLATIONARY
PHENOMENON (CURRENTLY RUNNING AT A 12 TO 13 PERCENT ANNUAL
RATE) MIGHT PRODUCE. IN ADDITION TO THE MONETARY AND TRADE
MEASURES ADOPTED IN THE PAST, WHICH WOULD TAKE GRADUAL
EFFECT OVER THE COMING MONTHS, THE GOVERNMENT SAID IT
FELT THAT AN INTENSIVE EFFORT WOULD HAVE TO BE UNDERTAKEN
THAT WOULD HAVE EFFECT IN THE SHORT TERM, ESPECIALLY IN
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PAGE 02 MADRID 05301 180651Z

REGARD TO THOSE PRODUCTS AND SERVICES WITH GREATEST

"SOCIAL IMPACT".

2. THE PRIMARY COMPONENT IN THE ANTI-INFLATION PACKAGE WAS THE TEMPORARY FREEZING OF PRICES UNTIL THE END OF THE YEAR ON 42 ITEMS INCLUDED IN THE "MARKED BASKET" USED IN CALCULATING THE COST OF LIVING INDEX. SOME OF THE ITEMS AFFECTED ARE: MILK, BREAD, SUGAR, BEER, COOKING OIL, FROZEN MEATS, COFFEE, WATER, GAS, ELECTRIC POWER, COAL, TRANSPORTATION SERVICES, GASOLINE, TOBACCO, DETERGENTS, HOTEL AND RESTAURANT SERVICES, APPLIANCES, AND AUTOMOBILES.

3. IN ORDER TO DELAY PRICE INCREASES SOMEWHAT THE GOVERNMENT STIPULATED THAT THE ADVANCE NOTICE NECESSARY TO OBTAIN AUTHORIZATION FOR PRICE INCREASES ON A SPECIFIED CATEGORY OF GOODS BE INCREASED BY TWO MONTHS. IT ALSO WILL INTRODUCE A STRICTER CONTROL IN TERMS OF DOCUMENTATION COVERING WHOLESALE OPERATIONS IN FOOD PRODUCTS. AN URGENT PROGRAM TO INCREASE THE NUMBER OF PERSONNEL ENGAGED IN PRICE CONTROL AND INSPECTION AT THE MARKET-PLACE LEVEL WAS ALSO AGREED UPON.

4. VARIOUS MEASURES ON THE IMPORT SIDE WERE ALSO APPROVED AIMED AT REDUCING THE RATE OF INFLATION. RICE, WINE, OLIVE OIL, BEEF, PORK, LAMB, FROZEN FISH, FLOUR, NOODLES, PEARS, APPLES, ONIONS, TOMATOES, GREEN BEANS, AND LIQUORS THAT ARE IMPORTED WILL NO LONGER HAVE TO PAY THE INTERNAL TAXES (IMPUESTO DE COMPENSACION DE GRAVAMENES INTERNOS) THAT FORMALLY WERE REQUIRED. AS WELL, THE GOVERNMENT WILL "ARBITRATE COMPLEMENTARY FINANCIAL MEASURES" FOR THE IMPORT OF THESE PRODUCTS. WHAT THIS MEANS IN CONCRETE TERMS WAS NOT SPELLED OUT. ALSO VARIOUS "GLOBAL" QUOTAS HAVE BEEN ENLARGED, THE MORE NOTEWORTHY ONES BEING IN THE LINE OF CLOTHING. COTTON THREAD WAS COMPLETELY FREED OF IMPORT QUOTAS. IMPORTERS' MARKUPS WERE FROZEN AND WILL BE SUBMITTED TO A UNSPECIFIED CONTROL PROCEDURE.

5. NON-SPECIFIED LISTS OF FOOD PRODUCTS ARE TO BE PROHIBITED FROM EXPORT UNTIL DECEMBER 31, 1973.
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PAGE 03 MADRID 05301 180651Z

6. COMMENT: IT REMAINS TO BE SEEN WHETHER THIS LATEST PACKAGE OF MEASURES WILL BE ANY MORE EFFECTIVE THAN THOSE ANNOUNCED WITH EQUAL FANFARE (BUT OF LITTLE REAL EFFECT) IN THE PAST. CERTAINLY, THE PRICE-FREEZE ACTION ON THE 42 ITEMS INVOLVED IS STRONGER THAN ANY STEP ADOPTED IN THE PAST. ENFORCEMENT COULD BE A PROBLEM, HOWEVER. FURTHERMORE, THE ABSENCE OF A WAGE CONTROL

COULD SERIOUSLY WEAKEN THE GOVERNMENT'S INTENTION TO
MODERATE THE RATE OF INFLATION, ESPECIALLY IN VIEW OF
THAT FACT THAT MANY NEW WAGE CONTRACTS ARE SCHEDULED TO
BE RENEGOTIATED THIS FALL. SOMETHING HAD TO BE DONE,
HOWEVER, SINCE, AS ONE HIGH-RANKING GOS OFFICIAL RECENTLY
TOLD AN EMOFF, SPAIN IS THE ONE COUNTRY IN EUROPE
THAT HAS DONE THE LEAST TO CONTROL INFLATION WHILE
ITS INFLATIONARY RATE IS CURRENTLY NEAR THE TOP.
FURTHERMORE, THE 1.63 PERCENT COST-OF-LIVING JUMP IN AUGUST
REQUIRED SOME PUBLIC GESTURE BY THE GOVERNMENT IT WAS MADE
CLEAR, THOUGH, THAT A HIGH GNP GROWTH RATE WAS STILL THE
FIRST PRIORITY AND NOTHING OVERLY CONTRACTIONARY WOULD BE
DONE IN THE COURSE OF THE WAR ON INFLATION THAT
MIGHT JEOPARDIZE THIS OR AFFECT LABOR IN TERMS OF WAGE
OR EMPLOYMENT LEVELS.
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